

Financial Finesse Series Ratios – Do You Care?

The path that women business owners choose to walk is vibrant, rich in experience and full of interesting characters. It can also be, at least from time to time, a little bumpy. Generally speaking, this is not a road that many pessimists choose to follow. Sometimes, even as an optimist, you need those rose-coloured glasses just to get through the day.

Successful women entrepreneurs have an amazing resiliency, an ability to see the light at the end of the tunnel and to believe in themselves and their concepts even when those around them are in doubt. Those are good and important qualities and they should never be lost. They allow you to take calculated risks and to win.

Vision and the ability to keep your eye on the prize are vital. At the same time, though, it is critical that your daily decision-making and the tactical implementation of your plans be well-informed. 'Calculated' is the key component of effective risk-taking. At the end of the day, the voice of reason must ring loud and clear as you move forward with your business.

For many women business owners, their company is as much a labour of love as it is anything else. Your heart is as invested as your head. To ensure that you maintain sound judgement in your operations, it's important that you have stellar advisors and objective tools for assessing your company's performance. A good accountant, current books, financial statements and financial ratios are all important in determining not only where you're at but where you should go next.

Pat Moberg of Briar Patch Gifts, a Kelowna-based retail store, is a big believer in the power of sound financial advice. "When starting your business, your accountant can work with you to set up financial statements that will help you make decisions in all areas of your business. A good tip that I received: keep track of all of your receipts and expenses on a weekly or even daily basis. You need to keep well-organized records so that you can see fluctuations in expenses, find out the reasons for them and save for any upcoming, out of the ordinary expenses. A bonus: if you keep your receipts well-organized, you will cut down on accounting expenses at year-end!"

"Your accountant can set you up with an income statement to track both revenues and expenses so that you can determine the performance of your business" says Pat. "I do these every three months so that I can find out what

areas are over or under budget. In the case of a small retail store, income statements can pinpoint problems such as dramatic increases in cost of goods sold. They can also be used to determine your tax liability. All of this information will help you when making purchasing decisions.”

Among the best tools an accountant brings to your business-assessment table are financial ratios. Ratios, you say – what are those? Anyone with the sudden urge to run screaming from the room can relax! The terminology sounds much worse than the application. Reach for the rose-coloured glasses, if you must, and carry on. It’s really not that bad.

Financial ratios are nothing more than a way of organizing the asset, liability, revenue and expense information generated by your business, so that it tells the story of how you are doing relative to your goals. There are a number of different kinds of ratios and each can provide tremendous insight into the health of your business.

Good financial analysis compares one thing to another in a meaningful way – a way that promotes good decision-making and management. Financial ratios are tools for financial analysis. One common ratio that you probably already work with involves basic size comparison. Often, people engage in such comparisons intuitively. You might, for example look at your profits as a percentage of your total sales revenue. Period by period, that ratio could tell you, among other things, if you’re offering the right products and services and charging enough for them.

Other kinds of ratios will give you insight into such things as how effectively you’re using the resources you have available to you in your business (productivity ratios); whether you’re generating enough revenue to cover your costs (profitability ratios); whether you repay your debt (solvency ratios); and, finally, whether you can meet the short-term financial obligations – accounts payable among them – of your business (liquidity ratios).

Liquidity ratios are probably the most commonly used of all financial ratios. They are important because they can signal cash crunches in your day-to-day operations and prompt you to take action. One of the most often used liquidity ratios is the *current ratio* which is calculated by dividing:

your current assets (made up of cash, collectable accounts receivable, saleable inventory and prepaid, short-term expenses)

by your current liabilities (made up of accounts payable including salaries and taxes, and the near-term payable portion of any long-term debt you have).

Generally speaking, the *current ratio* pertains to assets and liabilities that will materialize in your business over the next twelve months. It provides good

information for cash flow planning and will also be of great interest to any banker you approach for money. Bankers need to know that you have sufficient discretionary funds available to make payments on any loans they might give you.

Of course, financial ratios are only as good as the data you use to calculate them. For someone not used to working with financial information, selecting the right data to plug into ratio formulas can be as confusing as interpreting the results. That's where your accountant comes in. It's important to work with someone who knows what all those numbers represent and can help you make sense of them.

Tryna Gower of Tryna Gower Photography in Ft. St. John knows the value of financial data and analysis. "For the first five years of my business, I didn't have an accountant," says Tryna. "I had a bookkeeper who was a friend and I thought that it was good for the business because I was keeping costs down."

"When I got an accountant it was because I wanted to see my numbers every month and to better understand where my business sat. Getting those reports helped me to understand where my expenses and profits were at and to see the overall picture. It's essential, I would recommend for any entrepreneur to get an accountant at the start of their business."

"As soon as I got an accountant my numbers fast forwarded. It's pretty great once you understand the reports and have someone to help you interpret them and to give you advice. When you looked at your statements and it's there in black and white, it's a reality check. It allows you to assess what you can do to reduce cost and increase profits. It's all right there in front of you."

Clearly, sound financial examination, understanding and management can mean the difference between just getting by in your business, and reaching your full potential. Financial information provides an objective representation of what is going on - what you're doing well and what you may need to change in order to move closer to your goals.

Those numbers are not to be feared. They *are* your business, in its most fundamental form. While they don't take into account your market sense, strategic vision and heart, they can most definitely feed and inform those immeasurable assets. And when they do, there is virtually nothing that can stand in your way in terms of good, solid decision-making for your business.

Women's Enterprise Centre is the go-to place for BC women business owners for business loans, skills training, business advisory services, resources, publications and referrals. Call us at 1.800.643.7014 or email info@womensenterprise.ca from anywhere in BC.